

The Uthungulu Financing Partnership

Financial statements

for the period 1 July 2013 to 30 June 2014

The Uthungulu Financing Partnership

Financial statements

for the period 1 July 2013 to 30 June 2014

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The Uthungulu Financing Partnership

Partners' responsibility statement

The partners are responsible for the preparation and fair presentation of the financial statements of The Uthungulu Financing Partnership, comprising the statement of financial position at 30 June 2014, and the statements of comprehensive income, changes in equity and cash flows for the period 1 July 2013 to 30 June 2014, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, and the partners' report in accordance with International Financial Reporting Standards.

The partners are also responsible for such internal control as the partners determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The partners have made an assessment of the ability of the partnership to continue as a going concern and have no reason to believe that the entity will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of financial statements

The financial statements of The Uthungulu Financing Partnership, as identified in the first paragraph, were approved and signed by the partnership manager on 18 July 2014.



**Nedbank Capital Transaction Management
Acting as Partnership Manager**

The Uthungulu Financing Partnership

Partners' report

for the period 1 July 2013 to 30 June 2014

The partnership was formed on 2 October 1998, to act as a leasing, financing and investment vehicle.

Results of operations

The financial year of the partnership ends on the last day of December of each year. The financial statements for the period 1 July 2013 to 30 June 2014 have been prepared on a going concern basis, in terms of a request by one of the partners, the Uthungulu District Municipality, for the purposes of their accounting requirements.

The results of the partnership and state of affairs are set out in the attached audited financial statements and do not in the opinion of the partners require any further comment.

Partners

The partners and their respective addresses are –

Nedgroup Investment 102 Limited

Business address –

135 Rivonia Road
Sandown
Sandton
2196

NIB 9810 Trust

Business address –

135 Rivonia Road
Sandown
Sandton
2196

Uthungulu District Municipality

Business address –

Uthungulu House
Central Business District
Richards Bay
3900



KPMG Inc
KPMG Crescent
85 Empire Road, Parktown, 2193
Private Bag 9, Parkview, 2122, South Africa

Telephone +27 (0)11 647 7111
Fax +27 (0)11 647 8000
Docex 472 Johannesburg

Independent Auditor's Report

To the Partners of the Uthungulu Financing Partnership

We have audited the financial statements of the Uthungulu Financing Partnership, which comprise the statement of financial position at 30 June 2014, and the statements of comprehensive income, changes in equity and cash flows for the period then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 16.

Partners' Responsibility for the Financial Statements

The partners are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the partners determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Uthungulu Financing Partnership at 30 June 2014 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

KPMG Inc.

Per *VT Yuill*
Chartered Accountant (SA)
Registered Auditor
Director
18 July 2014

KPMG Inc is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International") a Swiss entity

KPMG Inc is a Registered Auditor, in public practice in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

Policy Board:
Chief Executive: RM Kgosana

Executive Directors: T Fubu, A Hari, E Magondo, JS McIntosh, CAT Smit, D van Heerden

Other Directors: DC Duffield, LP Fourie, N Fubu, TH Hoole, A Jaffer, M Letsisi, A Masemola, AM Mokgadi, Y Suleman (Chairman of the Board), A Thunström

The company's principal place of business is at KPMG Crescent 85 Empire Road, Parktown, where a list of the directors' names is available for inspection

The Uthungulu Financing Partnership

Statement of financial position at 30 June 2014

	<i>Note</i>	2014 R	2013 R
Assets			
Non-current asset			
Investment in finance lease	2.1	15 065 794	17 642 226
Current assets		7 566 224	6 691 759
Current portion of investment in finance lease	2.1	7 267 143	6 374 687
Cash and cash equivalents		299 081	317 072
Total assets		22 632 018	24 333 985
Equity and liabilities			
Capital and reserves	3	18 343 609	19 502 109
Non-current liability		2 187 252	2 730 719
Finance lease liability	2.2	2 187 252	2 730 719
Current liability		2 101 157	2 101 157
Current portion of finance lease liability	2.2	2 101 157	2 101 157
Total equity and liabilities		22 632 018	24 333 985

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The Uthungulu Financing Partnership

Statement of comprehensive income for the period 1 July 2013 to 30 June 2014

	<i>Note</i>	2014	2013
		R	R
Revenue		5 674 044	5 909 744
Interest income	4	5 674 044	5 909 744
Expenditure		(2 516 533)	(2 713 939)
Interest expense on finance lease		(2 516 533)	(2 713 939)
Total profit and comprehensive income for the period		3 157 511	3 195 805

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The Uthungulu Financing Partnership

Statement of changes in equity for the period 1 July 2013 to 30 June 2014

	Capital accounts R	Accumulated loss R	Total R
Balance at 1 July 2012	38 055 707	(18 360 052)	19 695 655
<i>Total comprehensive income for the period</i>	–	3 195 805	3 195 805
Total profit and comprehensive income for the period	–	3 195 805	3 195 805
<i>Transactions with partners, recognised directly in equity</i>	–	(3 389 351)	(3 389 351)
Distributions paid	–	(3 389 351)	(3 389 351)
Balance at 30 June 2013	38 055 707	(18 553 598)	19 502 109
<i>Total comprehensive income for the period</i>	–	3 157 511	3 157 511
Total profit and comprehensive income for the period	–	3 157 511	3 157 511
<i>Transactions with partners, recognised directly in equity</i>	–	(4 316 011)	(4 316 011)
Distributions paid	–	(4 316 011)	(4 316 011)
Balance at 30 June 2014	38 055 707	(19 712 098)	18 343 609

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The Uthungulu Financing Partnership

Statement of cash flows

for the period 1 July 2013 to 30 June 2014

	Note	2014 R	2013 R
Cash flows from operating activities		3 157 511	3 195 805
Cash utilised by operations	5	–	–
Interest received		5 674 044	5 909 744
Interest expense		(2 516 533)	(2 713 939)
Cash flows from investing activities		1 683 976	547 419
Movement in investment in finance lease		1 683 976	547 419
Cash utilised by financing activities		(4 859 478)	(3 735 411)
Distributions paid		(4 316 011)	(3 389 351)
Decrease in finance lease liability		(543 467)	(346 060)
(Decrease)/increase in cash and cash equivalents		(17 991)	7 813
Cash and cash equivalents at the beginning of the period		317 072	309 259
Cash and cash equivalents at the end of the period		299 081	317 072

The Uthungulu Financing Partnership

Notes to the financial statements

for the period 1 July 2013 to 30 June 2014

1. Accounting policies

The financial statements incorporate the principal accounting policies set out below, and are consistent with those adopted in the previous financial period.

1.1 Basis of preparation

The financial statements are prepared on the historical cost basis, unless otherwise stated. The financial year end of the partnership ends on the last day of December of each year. The financial statements for the period 1 July 2013 to 30 June 2014 have been prepared on a going concern basis, in terms of a request by one of the partners, the Uthungulu District Municipality, for the purposes of their accounting requirements.

1.2 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards.

1.3 Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. Finance leases are recognised in the statement of financial position at an amount equal to the net investment in the lease.

The net investment in the lease is the gross investment in the lease less unearned finance income.

The gross investment in the lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor.

Unearned finance income is the difference between the gross investment in the lease and the present value of the gross investment in the lease at the interest rate implicit in the lease.

Interest income is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's investment outstanding in respect of the finance lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Uthungulu Financing Partnership

Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

1. Accounting policies (continued)

1.4 Financial instruments

Initial recognition and measurement

Financial instruments are initially measured at fair value, when the related contractual right or obligation exists. Subsequent to initial recognition, financial instruments are measured as set out below:

Cash and cash equivalents

Cash and cash equivalents comprise cash balances with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost in the statement of financial position. The carrying amount of cash and cash equivalents approximates its fair value due to the short term maturity of this asset.

Derecognition of financial instruments

The partnership derecognises a financial asset when and only when:

- the contractual rights to the cash flows arising from the financial asset have expired or been forfeited by the partnership; or
- it transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

1.5 Distributions paid

Distributions are paid to the partners in accordance with the Partnership Agreement.

1.6 New accounting standards relevant to the partnership

Standards that became effective for the first time during the financial period were adopted without any impact.

The following statements, amendments and interpretations to existing statements have been published and have not been adopted early by the partnership. The impact thereof on the financial statements of the partnership has not been estimated.

- IFRS 9 – Financial instruments (effective date not yet published)

The Uthungulu Financing Partnership

Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

	2014 R	2013 R
2. Finance leases		
2.1 Investment in finance lease		
<i>Reconciliation of carrying amount</i>		
Gross investment in the finance lease	34 540 500	41 873 351
Unearned finance income	(12 207 563)	(17 856 438)
Net investment in lease	<u>22 332 937</u>	<u>24 016 913</u>
<i>Gross investment in finance lease</i>		
Less than 1 year	8 359 451	7 332 851
Between 1 and 5 years	<u>26 181 049</u>	<u>34 540 500</u>
	<u>34 540 500</u>	<u>41 873 351</u>
<i>Present value of minimum lease payments receivable</i>		
Less than 1 year	7 267 143	6 374 687
Between 1 and 5 years	<u>15 065 794</u>	<u>17 642 226</u>
	<u>22 332 937</u>	<u>24 016 913</u>

The partnership leases immovable property to the Uthungulu District Municipality in terms of a finance lease. The lease period expires on 31 October 2017, however the lessee has the option to extend the lease to 31 October 2027. The yield to maturity on the lease is 23,81% (2013: 23,81%).

Description of the immovable property

Subdivision 2 of Erf 10033, Central Business District, Richards Bay, (Extension No 8) Registration Division GU, in the Richards Bay Transitional Local Council Area, Province of Kwa-Zulu Natal.

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The Uthungulu Financing Partnership

Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

2. Finance leases (continued)

	2014 R	2013 R
2.2 Finance lease liability		
<i>Reconciliation of carrying amount</i>		
Total future minimum lease payments	9 180 000	12 240 000
Less: finance charges	(4 891 591)	(7 408 124)
Present value of finance lease liability	<u>4 288 409</u>	<u>4 831 876</u>
<i>Future minimum lease payments</i>		
Less than 1 year	3 060 000	3 060 000
Between 1 and 5 years	<u>6 120 000</u>	<u>9 180 000</u>
	<u>9 180 000</u>	<u>12 240 000</u>
<i>Present value of minimum lease payments</i>		
Less than 1 year	2 101 157	2 101 157
Between 1 and 5 years	<u>2 187 252</u>	<u>2 730 719</u>
	<u>4 288 409</u>	<u>4 831 876</u>

The partnership leases immovable property from the Uthungulu House Development Trust in terms of a finance lease. The original lease expires on 31 October 2017 however the lessee has the option to extend the lease to 31 October 2027. The yield to maturity on the lease is 46% (2013: 46%).

Description of the immovable property

Subdivision 2 of Erf 10033, Central Business District, Richards Bay, (Extension No 8) Registration Division GU, in the Richards Bay Transitional Local Council Area, Province of Kwa-Zulu Natal.

3. Capital and reserves

Capital accounts	38 055 707	38 055 707
Accumulated loss	<u>(19 712 098)</u>	<u>(18 553 598)</u>
	<u>18 343 609</u>	<u>19 502 109</u>

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The Uthungulu Financing Partnership

Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

	2014 R	2013 R
4. Interest income		
Interest income – finance lease	5 648 875	5 884 907
Interest income – cash and cash equivalents	25 169	24 837
	<u>5 674 044</u>	<u>5 909 744</u>
5. Notes to the statement of cash flows		
<i>Cash utilised by operations</i>		
Profit for the period	3 157 511	3 195 805
<i>Adjusted for separately disclosed items:</i>		
Interest expense	2 516 533	2 713 939
Interest income	(5 674 044)	(5 909 744)
	<u>-</u>	<u>-</u>
6. Financial risk management		
<i>Credit risk</i>		
Credit risk is the risk of financial loss to the partnership if a counterparty to a financial instrument fails to meet its contractual obligations.		
The maximum exposure to credit risk is represented by the carrying amount of the financial assets in the statement of financial position. The partnership is exposed to the following credit risk:		
Investment in finance lease	22 332 937	24 016 913
Cash and cash equivalents	299 081	317 072
	<u>22 632 018</u>	<u>24 333 985</u>

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The Uthungulu Financing Partnership

Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

6. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the partnership will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The table below sets out the maturity analysis of the partnership's financial liabilities based on the contractual cash flows:

	Within 1 year	1-5 years	Total
	R	R	R
30 June 2014			
Finance lease liability	2 101 157	2 187 252	4 288 409
	<u>2 101 157</u>	<u>2 187 252</u>	<u>4 288 409</u>
30 June 2013			
	R	R	R
Finance lease liability	2 101 157	2 730 719	4 831 876
	<u>2 101 157</u>	<u>2 730 719</u>	<u>4 831 876</u>

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates.

The partnership holds the following interest bearing instruments:

	2014 R	2013 R
Investment in finance lease	22 332 937	24 016 913
Cash and cash equivalents	299 081	317 072
Finance lease liability	<u>(4 288 409)</u>	<u>(4 831 876)</u>

The partnership does not account for its investment in the finance lease or its finance lease liability at fair value through profit or loss. For this reason, a change in market interest rates will not affect profit or loss.

Currency risk

The partnership's activities are conducted in South African Rands. The partnership is not exposed to fluctuations in foreign exchange rates.

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The Uthungulu Financing Partnership

Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

7. Fair value of financial instruments

Financial assets and liabilities comprise finance lease assets and liabilities and cash and cash equivalents. The fair values of all financial instruments are substantially the same as the carrying amounts reflected on the statement of financial position. Where applicable, the fair values of financial assets and liabilities have been established using the market value, where available. For those instruments without a market value, a discounted cash flow approach has been used.

The table below sets out the partnership's accounting classification of each class of financial assets and liabilities, and their fair values as at 30 June 2014 and 30 June 2013:

30 June 2014	Fair Value R	Carrying Value R
Financial assets		
Investment in finance lease	22 332 937	22 332 937
Cash and cash equivalents	299 081	299 081
Total financial assets	22 632 018	22 632 018
Financial liabilities		
Finance lease liability	4 288 409	4 288 409
Total financial liabilities	4 288 409	4 288 409
30 June 2013	Fair Value R	Carrying Value R
Financial assets		
Investment in finance lease	24 016 913	24 016 913
Cash and cash equivalents	317 072	317 072
Total financial assets	24 333 985	24 333 985
Financial liabilities		
Finance lease liability	4 831 876	4 831 876
Total financial liabilities	4 831 876	4 831 876

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The Uthungulu Financing Partnership

Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

8. Related parties

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial and operating decisions. All transactions with related parties have been conducted on an arm's length basis.

The entity has a related party relationship with its partners, namely Nedgroup Investment 102 Limited, Uthungulu District Municipality and NIB 9810 Trust.